2004-2005

Annual Report

Building Marketing Strength for Canada's Freshwater Fishers

Canada

OUR MISSION

*"To be the **leading marketer** of freshwater fish products,*

***respected and recognized** for high-quality, dependable*

*supply, excellent customer value and **increasing returns to fishers.**"*

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LETTER OF TRANSFER

FROM CHAIRPERSON OF THE BOARD OF DIRECTORS TO MINISTER OF FISHERIES AND OCEANS

Honourable Geoff Regan
Government of Canada
Minister of Fisheries and Oceans
Suite 1570, 200 Kent Street
Ottawa, Ontario
K1A 0E6

Dear Mr. Regan:

We are pleased to submit the Corporation's Annual Report, in accordance with Section 150 of the *Financial Administration Act (FAA)*. The Annual Report includes audited financial statements for the fiscal year ending April 30, 2005.

The Corporation welcomes its newest Director, Bob Paterson, appointed as the Ontario representative at the beginning of the 2004/05 fiscal year for a three-year term.

As required under Part X of the *FAA*, the Office of the Auditor General undertook a scheduled Special Examination of the Corporation during the past fiscal year. Their findings were presented to the Board in March 2005. We are pleased to report that there were no significant deficiencies identified in the systems and practices that were examined. The full report will be made public through our website at www.freshwaterfish.com.

The results of the Special Examination, together with the findings of the Fisher Profile Study from 2003/04, provide independent confirmation that the Corporation is managed competently and has strong fisher support for its single-desk marketing mandate. The Board, management and staff will continue to focus all our efforts to serve the best interests of our fishers and thereby retain their ongoing trust and confidence.

Respectfully,

Jim Bear

Jim Bear
Chairman of the Board

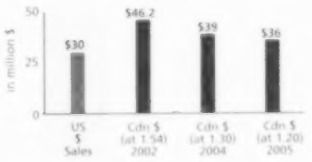
PRESIDENT'S REPORT

The 2004/05 fiscal year produced mixed results. Sales were 3.3% lower than the previous year, while fish deliveries and initial payments to fishers were off by 13.8% and 14.6% respectively. The U.S. to Canadian dollar exchange rate continued its decline with a further erosion equivalent to approximately $1.8 million in sales and returns to fishers.

On the positive side, profitability was restored following a rare loss in 2003/04. In addition, there was encouraging progress in the development of new whitefish products, markets, and the cost of new value-added products. We were also able to significantly reduce finished product inventory levels, as well as the year-end loan balance.

There are difficult challenges ahead as we adapt to a strong Canadian dollar. The necessary short-term measures have been taken with lower initial prices to fishers and a freeze on all non-essential expenditures. In the long-term, we must improve market value through product and market development and diversification, along with improved productivity throughout the system. In this regard, the Corporation has embarked on an aggressive multi-year program with the objective of restoring fisher earnings to the record levels achieved a few short years ago.

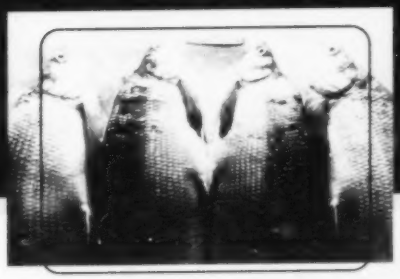
Impact of Strengthening Canadian Dollar on U.S. Sales Revenue
(in millions $)



Respectfully,

Robert F. Hand
President and Chief Executive Officer
Winnipeg, Manitoba

► *Whitefish, Coregonus clupeaformis, is part of the large salmon family, which includes salmon, trout, whitefish and grayling. It is widely distributed in fresh water from the Great Lakes to the Arctic coast.*



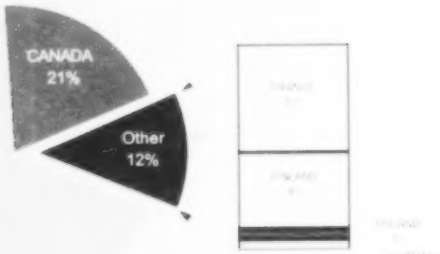
CORPORATE PROFILE

Freshwater Fish Marketing Corporation, a self-sustaining federal Crown corporation created in 1969, is the buyer, processor and marketer of freshwater fish from Manitoba, Saskatchewan, Alberta, Northwest Territories, and part of Northwestern Ontario. The Corporation's mandate is to purchase all fish lawfully harvested and offered for sale, to create an orderly market, to promote international markets, to increase fish trade, and to increase returns to fishers. Profits, in the form of final payments, are distributed annually to participating fishers.

The Board of Directors, with the President and Chief Executive Officer, governs the Corporation. All eleven positions on the Board are federal Order-in-Council appointments, with five appointed on recommendation of the participating provincial governments. During the 2004/05 fiscal year, six of those Directors were fishers and six were Aboriginal. A four-member senior management team assists the President and forty-six full-time staff provide administrative support. In addition, the Corporation employs up to 350 seasonal employees. Thirty-five contracted agents and three corporate agencies grade and purchase fish at sixty-eight delivery points. Approximately 2,500 fishers deliver the product harvested from more than 400 lakes in the region.

Freshwater Fish Marketing Corporation has established a solid reputation for product reliability, quality and safety. The Corporation is a recognized price leader, exercising its mandate to market fish interprovincially and internationally. It has a leadership position in the U.S. walleye market, and is the largest supplier of whitefish in Finland, whitefish caviar in Sweden and Finland, and northern pike in France. The Corporation plant is kosher-certified and the largest supplier of fish to the gefilte fish market.

Export Markets (Based on sales in dollars)



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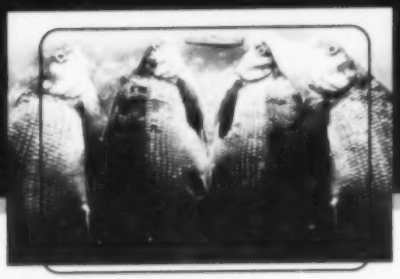

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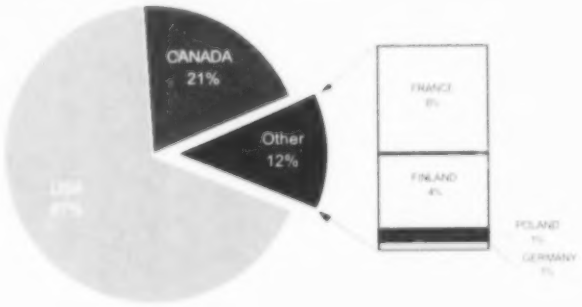

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► *Freshwater Fish Marketing Corporation receives whitefish from 130 different lakes, but five lakes account for most of it. Lake Winnipeg, Great Slave Lake, Utikuma, Winagami and Southern Indian Lake, in that order, provide about 75% of the whitefish.*

HIGHLIGHTS & ACCOMPLISHMENTS

MARKETING AND SALES

- Total sales of $58.2 million were $2.0 million or 3.3% below the previous fiscal year. There were sales increases for pickerel, sauger and northern pike offset by lower sales for the other species, particularly mullet, perch and whitefish. In the case of whitefish, the sales value was down but the volume (weight) sold was approximately the same.
- Fresh shipments accounted for 27% of all sales, compared to 29% last year. The decline resulted from a shortage of supply during peak fresh sales periods.
- Total sales by weight (kilograms sold) were off by 1.8 million kgs. (round weight equivalent) or 8%, most of which was mullet.
- Net average market prices for most products/species were weaker, reflecting a reduced exchange rate and price pressure from competitive supply.

FISHER RETURNS

- Total fish deliveries were 17.7 million kgs. (round equivalent weight), which was 2.9 million kgs. or 13.8% less than 2003/04.
- Lower deliveries were recorded for all species other than pickerel and for all regions, with the exception of pickerel in Manitoba and Alberta (up 2.3% and 55.8% respectively), and northern pike and mullet in Saskatchewan (increased 1.9% and 15.3% respectively).
- There are several contributing factors for the decline in deliveries, including lower initial prices, difficult winter fishing conditions and limits placed on mullet deliveries (mullet deliveries alone being down 1.1 million kgs.).
- As a result of reduced initial prices and less deliveries, total initial payments to fishers (net of freight) at $28.4 million were 14.6% below the last fiscal year.

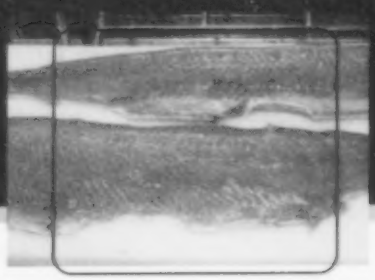
COST OF OPERATIONS

- Marketing and administrative expenses were less than the previous year, as were plant repair, maintenance and utility costs. Costs of company-operated agencies were also reduced.
- Direct labour cost per unit of production did not increase but the overall unit cost was generally higher. This resulted from increases in several indirect cost items and these increases (along with the fixed plant overheads) being prorated over a reduced level of production.
- The level of capital expenditures was the lowest in many years, as all but essential renewal investment was deferred during a time of restraint.

FINANCIAL ISSUES

- The net income of $1.4 million compared to a net loss of $0.8 million last year. The $2.2 million difference can be attributed to lower initial prices to fishers and, to a lesser extent, cost improvements.
- The U.S.-to-Canadian dollar exchange rate continued its slide with further erosion of 4.2% in the average realized value. This has had a negative impact equivalent to approximately $1.8 million on sales value and returns to fishers. The accumulated exchange rate impact over the last two fiscal years is now close to $8.0 million annually.
- The Board has approved full payout of net income as final payments in the appropriate species pools.

► *Two years ago, the Corporation identified as its highest priority the development of new products and markets for whitefish... The objective is to have sufficient market options so that all potential whitefish deliveries can be absorbed at prices that can provide attractive returns to fishers.*



STRATEGIC DIRECTIONS

The 2004/05 fiscal period was the fourth full year of operation under the Corporation's Strategic Directions plan. The program focuses on three key goals: sustaining market leadership, increasing returns to fishers, and earning respect and recognition.

SUSTAINING MARKET LEADERSHIP

OUR GOAL: TO BE THE SUPPLIER OF CHOICE IN THE MARKETS WE SERVE BASED ON QUALITY, SERVICE AND RELIABILITY.

OUR STRATEGIES:

WHITEFISH MARKET/PRODUCT DEVELOPMENT

Whitefish is the Corporation's single largest volume species, representing approximately one-third of all deliveries. Traditional markets include Finland, Great Lakes regions in Canada and the U.S., and Jewish distributors in New York City. Historically, most of the whitefish was sold either as a fresh or frozen whole eviscerated product to smokers or re-processors, or as a minced product to be used as an ingredient for gefilte fish.

Two years ago, the Corporation made it the highest priority to develop new products and markets for whitefish in an effort to break the historic boom-and-bust cycle associated with the traditional niche markets. The objective is to have sufficient market options so that all potential whitefish deliveries can be absorbed at prices that can provide attractive returns to fishers. Extensive market and consumer research, along with product development initiatives, have resulted in the launch of promising new value-added items, including vacuum-packed, boned fillets for the Canadian and U.S. retail markets, and boned fillets for foodservice in the U.S. and Finland. In addition, new or expanded markets have been identified in Russia, the Middle East and Poland. These marketing initiatives have been complemented by our Lake-to-Plate quality program and a drive to establish low-cost production capability.

Considerable progress has been achieved to date. Sales of whitefish in new product forms or into new markets increased by approximately 300,000 kgs. (round weight equivalent) or 52% over the previous year. The mid-term objective is to direct at least 2.25 million kgs. (round weight equivalent) into higher-margin new products and/or markets. This will be achieved through marketing and promotional programs, and leveraging our distribution and brand loyalty strengths in key markets.

BONED NORTHERN PIKE PRODUCTS

The development and expansion of markets for boned northern pike products in the critical French market continued during 2004/05. The products have been well-accepted and volumes grew to almost 175,000 kgs. in the past fiscal year. The product preference in France is shifting from a boned fillet to a size-controlled portion. In addition, a boned retail package was launched in the North American market. Plans call for the continued conversion of the French market to boned products, expanding retail sales in North America and developing the foodservice (restaurant) market. Removing bones from northern pike is extremely labour-intensive and has proven to be cost-prohibitive to do in Canada. For this reason, these boned products will continue to be produced in China.

MULLET MARKETING ALTERNATIVES

The inability to meet contracted volumes required by a customer who purchased all non-kosher minced mullet forced the Corporation to limit deliveries until more valuable, alternate markets can be found. Although caught in all regions, mullet

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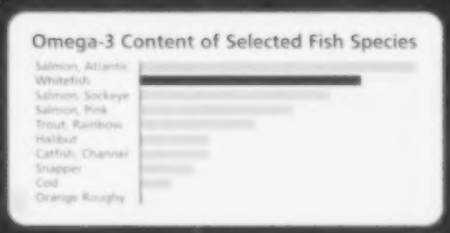


► *Whitefish contains more of the heart-healthy Omega-3 essential fatty acids than most other species. Chefs love the versatility of this white-fleshed fish.*

The Whitefish Experience was held in January 2005 in Gimli, Manitoba for selected U.S. customers in the restaurant business. ◄

deliveries are mainly concentrated in western Manitoba and northern Saskatchewan, and mullet is an important source of income for about 300 fishers. Important markets for mullet were protected by increasing initial prices to fishers and better managing the supply chain. Efforts are underway to expand kosher sales in both the U.S. and Israel and to develop a mullet roe market. A pilot study will be undertaken to test the symmetrical-block commodity market.

PICKEREL / WALLEYE PROMOTION

This species accounts for 25% of all deliveries by weight but over 50% of the value of all sales. Much consumer research and customer relations-building has gone into these markets over the last several years. Most recently, a Customer Loyalty Program has been designed and implemented based on a market-pull strategy with restaurant operators. These efforts will continue with the goal of securing established market leadership against competition from eastern European substitutes.

MARKET DIVERSIFICATION

The U.S. is the Corporation's most important market. It accounts for 59% of all sales by weight but 67% by value. The exchange rate issue has illustrated the risks inherent in concentrating sales into one export market. Therefore, and with the distinct possibility of an even stronger Canadian dollar, efforts will be intensified to increase sales into non-U.S. markets, particularly into Canada. The U.S. will remain the single largest market but the goal will be reducing the U.S. share of dollar sales to a maximum of 60%.

OPTIMIZED INVENTORY LEVELS

Over the last three years, the Corporation has had higher-than-desired levels of inventory for whitefish and northern pike as deliveries outpaced sales. The Corporation responded through intensified new product and market development and promotion. These actions have resulted in inventories of these two species decreasing by 20% and 30% respectively over the last year. Continued pursuit of these strategies may result in similar inventory decreases in 2005/06.

LAKE-TO-PLATE QUALITY PROGRAM

The Lake-to-Plate program was launched in 2003/04 in order to upgrade the quality of our raw material from the time it is caught until it is consumed. All facets of the process flow were reviewed for quality enhancement, including harvesting, shipping, storage and processing. In addition, periodic newsletters were distributed to fishers, providing quality tips and feedback from the marketplace.

A major initiative now underway is to evaluate the quality benefits of shipping fish from the lakes to the plant in larger containers, with an ice water slurry. This system is gentler on the fish and promotes more consistent chilling. About 30% of all deliveries were shipped in this manner in 2004/05. The results were encouraging, with evidence of firmer fish, extended shelf life and fewer customer complaints. There were direct labour savings in handling costs, but there are also higher container return freight costs. Studies are underway to determine the value of the improved quality before full conversion proceeds.

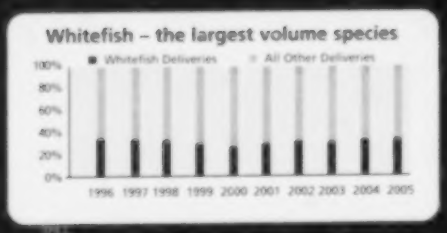
PERFORMANCE INDICATORS

A base-line customer survey was conducted by Probe Research in 2001 to determine whether FFMC was the supplier of choice with regard to service, quality and reliability. This survey was completed in April 2004 and additionally, valuable information was gathered in regards to new market opportunities. A condensed summary of both results are presented in the table below.

The 2004 results were generally lower than in 2001, particularly for service and reliability. Out-of-stock incidents for prime sizes of pickerel and customer concerns with timely communication were the indicated reasons. These issues are being addressed on a go-forward basis.

In October 2004, a letter was sent to all customers summarizing the results of the survey and outlining a new policy to improve customer response time. We expect that the next scheduled survey in 2006 will reflect the corrective action taken.

Factor	2001 Score	2004 Score
Service	4.3 out of 5.0	3.8 out of 5.0
Quality	4.4 out of 5.0	4.3 out of 5.0
Reliability	4.4 out of 5.0	3.9 out of 5.0
Overall Performance	7.7 out of 10.0	7.2 out of 10.0



► *Historically, whitefish has accounted for at least one-third of all deliveries. Most lakes are fished below their sustainable level for whitefish. Supply can grow as new markets and new products develop.*

GENERATING INCREASING RETURNS TO FISHERS AND COMMUNITIES

OUR GOAL: TO INCREASE TOTAL RETURNS TO FISHERS, THEREBY ENHANCING THE BENEFITS TO THEM AND THEIR COMMUNITIES.

OUR STRATEGIES:

CONTINUOUS COST IMPROVEMENT

The Corporation's Continuous Cost Improvement Program led to significant changes over the last three years. A new whitefish processing line, a new whole fish grader, modified fish scalers and an upgraded scale control system have been installed. There were two facilitated Production Cost Workshops (January 2004 and February 2005) involving all levels of management which have provided the impetus for change and innovation.

Improvements in labour efficiency measurement and the reorganization of plant management have helped focus attention on controlling costs. Labour efficiency, measured as a per cent of standard, was improved overall by 2% (from 85% to 87%), representing a $170,000 saving, compared to the previous year. The addition of a production engineering analyst in the last fiscal year provided the resource needed to advance continuous improvement to the next level. Initial objectives for yield, labour cost and output for the whitefish processing line were achieved. The rate of workplace injuries dropped from 2.8% of available hours at the close of the 2003/04 fiscal year to 1.5% for 2004/05.

Moving forward, several cost improvement projects are planned or already underway. New filleting machines are being evaluated for replacement of existing machines that are over 25 years old to improve yield, reduce trimming labour and reduce maintenance costs. Opportunities for automating freezer tunnel in-feed, IQF fillet packaging and cold storage stacking functions will be investigated. A PowerSmart program with Manitoba Hydro, set up in 2004/05, will be implemented early in 2005/06, delivering a $58,000 reduction in energy costs. The production control system will be enhanced with more timely and accurate input for both labour efficiency and product yields.

Processing supervisors will receive training to better respond to issues on a real time basis. A more formal product specification program will ensure that product specifications and processing practices are appropriate for customer requirements and cost-effective for the value received.

PERFORMANCE INDICATORS

"Returns to fishers", defined as initial payments (net of freight) plus final payments, has been used as a simple, obvious performance indicator. Returns to fishers are reported in aggregate and by species pool (see page 12).

Two years ago, an index of returns to fishers in the form of a three-year moving average was reported for the first time and has been continued this year. The three-year moving average:

- *Clearly shows trends over time, while moderating the effect of year-to-year variations*
- *Smooths out environmental cycles*
- *Accounts for inventory carry-over (i.e. fish caught in one year can be sold in the next).*

The current three-year moving average for returns to fishers has declined by $3.5 million, or 9%, since last year (p.12). This marks the second consecutive year in which this index decreased after a consistent upward trend from 1998 to 2003. Lower prices in the past two years, and reduced deliveries in 2004/05, account for the declining trend in this crucial performance indicator.

Whitefish is produced in all regions, but it is relatively more important to fishers in Northwest Territories and Alberta.

EARNING RESPECT AND RECOGNITION

OUR GOAL: TO EARN SUPPORT FOR THE CORPORATION'S MANDATE FROM A MAJORITY OF THE COMMERCIAL FISHERS WE SERVE.

OUR STRATEGIES:

INTERNAL REPORTS AND CONTROLS

The *Financial Administration Act*, Section 131, requires internal audits to be conducted for each Crown corporation. It is not cost-beneficial for the Corporation to have an internal auditor on staff. In order to comply with Section 131 of the Act, internal audits were undertaken by third party contractors with expertise in the area being examined. One such audit resulted in an exchange rate hedging policy being approved by the Board and implemented for the 2004/05 fiscal year. The average realized exchange rate under this policy was slightly higher than what would have been achieved on the spot market. The audit program will continue to assess risks in one or two areas each year, as approved by the Board of Directors in consultation with management.

STAKEHOLDER RELATIONS

The Corporation has enhanced its communications and dialogue with all stakeholders through a series of ongoing initiatives. These include a website, quarterly reports, newsletters, Special Information bulletins, customer and fisher surveys, corporate presentations and participation by Board members and senior management at regional fisher meetings. This will continue in an effort to be open, accessible and responsive to all those served by our mandate.

In addition, Board policies such as the Export Dealers' Licence and Regional Processing will continue to be used as tools to provide creative flexibility to meet the legitimate needs of fishers.

LABOUR / EMPLOYEE RELATIONS

The Corporation will continue to provide a respectful and inclusive workplace that fosters innovation and recognition. Policies that have been developed recently will be administered fairly and uniformly.

Challenges ahead include reaching a new agreement with our unionized workers in 2005/06. Also, the Corporation is mindful that more progress is needed to increase the representation in staff and management from the Aboriginal community and other visible minorities.

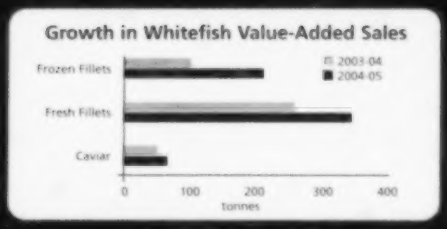
PERFORMANCE INDICATORS

The Fisher Profile Survey indicated that over 7 in 10 fishers support the mandate of the Corporation. We will strive to improve on this level of support as we continue to focus on the important issues identified in the survey.

The benchmark provided by the Fisher Profile survey enabled a process whereby the Corporation, employing smaller, more efficient samples, can monitor fishers' issues and attitudes at regular intervals. The first repeat survey is scheduled for 2007.

Employee Recognition 30 YEARS SERVICE

Ralph Kamieniarz



► *Considerable progress has been achieved to date. Sales of whitefish in new product forms or into new markets increased by approximately 300,000 kgs. (round weight equivalent) or 52% over the previous year.*

TEN YEAR FINANCIAL SUMMARY

FISCAL YEAR ENDED APRIL 30, 2005 (All amounts in millions of dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	**2005**
Sales	$47.1	$43.0	$43.0	$50.7	$54.9	$61.9	$68.2	$66.8	$60.3	**$58.2**
Net Income Before Final Payments	$2.7	$0.2	$2.1	$5.6	$4.3	$6.8	$7.4	$6.2	($0.8)	**$1.4**
Initial Payments To Fishers	$30.3	$25.4	$22.1	$27.9	$34.2	$36.7	$35.9	$37.7	$35.7	**$30.4**
Net Income Plus Initial Payments To Fishers	$33.0	$25.6	$24.2	$33.5	$38.5	$43.5	$43.3	$43.9	$34.9	**$31.8**
Accounts Receivable - Trade	$4.5	$4.6	$3.4	$4.8	$5.8	$6.3	$7.4	$7.1	$7.9	**$7.0**
Inventory – Finished Fish Products	$6.7	$7.0	$4.7	$5.0	$8.8	$12.2	$10.9	$13.7	$14.4	**$12.4**
Inventory – Packaging Material and Parts	$1.1	$1.1	$1.1	$0.8	$0.8	$0.9	$0.8	$0.9	$0.9	**$1.0**
Capital Assets – Net Book Value	$7.5	$7.0	$6.1	$6.3	$6.5	$6.2	$6.7	$6.9	$6.7	**$6.3**
Loans Payable	$11.1	$13.2	$7.1	$5.8	$10.9	$12.1	$11.5	$14.0	$23.1	**$18.4**
Retained Earnings	$4.2	$4.2	$4.2	$4.2	$4.2	$4.2	$4.2	$4.2	$3.3	**$3.3**

***Retained Earnings**

Over the years, the Corporation has gradually established a "retained earnings" balance totaling $4.2 million. This total (commonly known by fish producers as the "reserve fund") was accumulated through deductions from earnings generated from the sale of fish between 1980 and 1994. In 1994, when retained earnings reached $4.2 million, deductions were stopped. These retained earnings are used by the Corporation to finance operations and inventories of fish, and reduce the Corporation's dependency on external financing from banks, thereby enabling the Corporation to reduce annual interest charges. Although $4.2 million in retained earnings is low for a business the size of FFMC, it provides some security against unexpected downturns in the market or extremely serious financial setbacks, such as the net income loss that occurred during the 2003/04 fiscal year as a result of the sharply (12%) lower U.S.-to-Canadian dollar exchange rate. This situation caused a decrease in Retained Earnings of $0.8 million, to $3.3 million.

HOW FISHERS ARE PAID

The *Freshwater Fish Marketing Act* mandates the Corporation to purchase all commercially caught fish in Manitoba, Saskatchewan, Alberta, the Northwest Territories and part of Northwestern Ontario. The Act entitles the Corporation to establish a payment structure that provides initial and final payments under a "pool" system where receipts and costs are allocated or "pooled" by fish species to determine final payments.

Generally, initial prices are set for each species by estimating its market value, subtracting its projected processing and operating costs and withholding a contingency amount. An exception is exercised when the Corporation is developing new markets or products. Then initial prices are set above market-justified levels to secure production for establishing new markets.

The Corporation's policy is to set initial prices for all species at levels designed to promote a full fishery in all regions. Higher volumes, including lower-value species, help develop markets, maximize efficiencies and contribute to fixed costs for the benefit of all fishers.

Initial prices may be adjusted during the fiscal year to reflect changing market conditions. A temporary delivery premium may be offered for a given species to encourage fishers to harvest when prices are strong or when there is an urgent need to meet a customer's requirement.

At the end of the fiscal year, after the annual audit by the Office of the Auditor General, the Corporation determines final payments from the pooled receipts. A final payment is recommended when sales revenues exceed all direct and allocated costs for a given species.

The following table provides a ten-year history of pool results.

PRODUCT DELIVERIES & FINANCIAL RETURNS TO FISHERS BY SPECIES

TEN YEAR SUMMARY (1996-2005), FISCAL YEAR ENDED APRIL 30

Initial and Final Payments in Millions of Dollars (Current Dollars)

[1] Delivered Weight - Round Equivalent Weight (millions of kilograms)
[2] Price/Round Kg. - Based on Initial Payment plus Final Payment
[3] Initial Payments - Net of Freight
[4] Three Year Moving Average of Total Payments

	1996	1997	1998	1999	2000	2001	2002	2003	2004	**2005**
Pickerel										
Delivered weight[1]	3.1	2.6	2.8	3.7	4.6	5.7	5.1	5.1	5.6	**5.6**
Price/Round Kg.[2]	$4.42	$3.50	$3.61	$4.38	$4.28	$4.19	$4.45	$4.65	$3.45	**$3.20**
Initial Payment[3]	$11.6	$9.0	$8.7	$13.0	$17.3	$19.6	$16.8	$18.2	$19.3	**$17.9**
Final Payment	$2.1	$0.1	$1.4	$3.2	$2.4	$4.3	$5.9	$5.5	$0.0	**$1.2**
Total Payment	$13.7	$9.1	$10.1	$16.2	$19.7	$23.9	$22.7	$23.7	$19.3	**$19.1**
3 Yr. Moving Avg.[4]	$11.5	$11.6	$11.0	$11.8	$15.3	$20.9	$22.1	$23.4	$21.9	**$20.7**
Whitefish										
Delivered weight[1]	6.4	6.4	5.5	5.3	5.6	6.5	6.8	7.0	6.7	**5.9**
Price/Round Kg.[2]	$0.98	$0.92	$0.91	$1.09	$1.27	$1.43	$1.16	$1.19	$1.10	**$1.00**
Initial Payment[3]	$6.2	$5.9	$5.0	$5.0	$6.2	$7.8	$7.9	$8.3	$7.4	**$5.9**
Final Payment	$0.1	$0.0	$0.0	$0.8	$0.9	$1.5	$0.0	$0.0	$0.0	**$0.0**
Total Payment	$6.3	$5.9	$5.0	$5.8	$7.1	$9.3	$7.9	$8.3	$7.4	**$5.9**
3 Yr. Moving Avg.[4]	$5.3	$6.1	$5.7	$5.6	$6.0	$7.4	$8.1	$8.5	$7.9	**$7.2**
Northern Pike										
Delivered weight[1]	2.5	2.4	2.4	2.7	2.8	2.6	2.5	2.4	2.3	**1.9**
Price/Round Kg.[2]	$0.72	$0.67	$0.67	$0.81	$0.82	$0.85	$0.80	$0.71	$0.65	**$0.68**
Initial Payment[3]	$1.8	$1.6	$1.6	$1.9	$2.0	$1.9	$1.8	$1.7	$1.5	**$1.1**
Final Payment	$0.0	$0.0	$0.0	$0.3	$0.3	$0.3	$0.2	$0.0	$0.0	**$0.0**
Total Payment	$1.8	$1.6	$1.6	$2.2	$2.3	$2.2	$2.0	$1.7	$1.5	**$1.1**
3 Yr. Moving Avg.[4]	$1.5	$1.6	$1.7	$1.8	$2.0	$2.2	$2.2	$2.0	$1.7	**$1.5**
Sauger										
Delivered weight[1]	1.3	1.1	1.0	1.1	1.0	0.6	0.7	0.8	0.8	**0.6**
Price/Round Kg.[2]	$3.62	$2.91	$2.50	$3.55	$3.20	$3.33	$4.14	$3.88	$3.13	**$2.67**
Initial Payment[3]	$4.2	$3.2	$2.0	$2.9	$2.8	$1.6	$2.2	$2.5	$2.5	**$1.6**
Final Payment	$0.5	$0.0	$0.5	$1.0	$0.4	$0.4	$0.7	$0.6	$0.0	**$0.1**
Total Payment	$4.7	$3.2	$2.5	$3.9	$3.2	$2.0	$2.9	$3.1	$2.5	**$1.7**
3 Yr. Moving Avg.[4]	$4.1	$4.2	$3.5	$3.2	$3.2	$3.0	$2.7	$2.7	$2.8	**$2.4**
Mullet										
Delivered weight[1]	3.7	4.7	3.7	3.9	5.8	5.4	5.0	5.4	3.9	**$2.6**
Price/Round Kg.[2]	$0.30	$0.28	$0.27	$0.28	$0.29	$0.28	$0.28	$0.26	$0.26	**$0.27**
Initial Payment[3]	$1.1	$1.3	$1.0	$1.1	$1.7	$1.5	$1.4	$1.4	$1.0	**$0.7**
Final Payment	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	**$0.0**
Total Payment	$1.1	$1.3	$1.0	$1.1	$1.7	$1.5	$1.4	$1.4	$1.0	**$0.7**
3 Yr. Moving Avg.[4]	$0.6	$0.9	$1.1	$1.1	$1.3	$1.4	$1.5	$1.4	$1.3	**$1.0**
Perch										
Delivered weight[1]	0.5	0.3	0.2	0.2	0.2	0.2	0.6	0.5	0.3	**0.2**
Price/Round Kg.[2]	$3.60	$3.00	$4.50	$5.50	$5.50	$4.50	$4.50	$3.60	$3.00	**$3.00**
Initial Payment[3]	$1.8	$0.9	$0.7	$0.8	$0.8	$0.6	$2.2	$1.8	$0.9	**$0.6**
Final Payment	$0.0	$0.0	$0.2	$0.3	$0.3	$0.3	$0.5	$0.0	$0.0	**$0.1**
Total Payment	$1.8	$0.9	$0.9	$1.1	$1.1	$0.9	$2.7	$1.8	$0.9	**$0.7**
3 Yr. Moving Avg.[4]	$1.3	$1.4	$1.2	$1.0	$1.0	$1.0	$1.6	$1.8	$1.8	**$1.1**
Other										
Delivered weight[1]	1.2	1.6	1.2	1.3	1.3	1.3	1.3	1.6	1.1	**0.9**
Price/Round Kg.[2]	$0.83	$0.69	$0.67	$0.54	$0.62	$0.62	$0.77	$0.69	$0.73	**$0.80**
Initial Payment[3]	$1.0	$1.0	$0.8	$0.7	$0.8	$0.8	$0.9	$1.0	$0.8	**$0.6**
Final Payment	$0.0	$0.1	$0.0	$0.0	$0.0	$0.0	$0.1	$0.1	$0.0	**$0.0**
Total Payment	$1.0	$1.1	$0.8	$0.7	$0.8	$0.8	$1.0	$1.1	$0.8	**$0.6**
3 Yr. Moving Avg.[4]	$0.8	$0.9	$1.0	$0.9	$0.8	$0.8	$0.9	$1.0	$0.9	**$0.8**
All Pools										
Delivered weight[1]	18.7	19.1	16.8	18.2	21.3	22.3	22.0	22.8	20.7	**17.7**
Price/Round Kg.[2]	$1.63	$1.21	$1.30	$1.70	$1.69	$1.82	$1.85	$1.80	$1.61	**$1.60**
Initial Payment[3]	$27.7	$22.9	$19.8	$25.4	$31.6	$33.8	$33.2	$34.9	$33.4	**$28.4**
Final Payment	$2.7	$0.2	$2.1	$5.6	$4.3	$6.8	$7.4	$6.2	$0.0	**$1.4**
Total Payment	$30.4	$23.1	$21.9	$31.0	$35.9	$40.6	$40.6	$41.1	$33.4	**$29.8**
3 Yr. Moving Avg.[4]	$25.1	$26.7	$25.1	$25.3	$29.6	$35.8	$39.0	$40.8	$38.3	**$34.7**

MANAGEMENT'S REPORT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Freshwater Fish Marketing Corporation and all information in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for doubtful accounts and the write-down of inventory, that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit studies, which consists of periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors meets with management and the external auditor on a regular basis. External auditors have full and free access to the Board.

The Corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing her report thereon.

Robert F. Hand
President and Chief Executive Officer
Freshwater Fish Marketing Corporation

Gabriella Bradics
Chief Financial Officer
Freshwater Fish Marketing Corporation

Winnipeg, Canada
July 8, 2005

Auditor General of Canada
Verificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Fisheries and Oceans

I have audited the balance sheet of Freshwater Fish Marketing Corporation as at April 30, 2005 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at April 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Freshwater Fish Marketing Act* and the by-laws of the Corporation.

Douglas G. Timmins, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
July 8, 2005

BALANCE SHEET

As at April 30 (in thousands)	**2005**	2004
ASSETS		
Current		
Cash	$ -	$ 149
Accounts receivable	7,358	8,280
Inventories (Note 3)	13,355	15,288
Prepaid expenses	204	71
	20,917	23,788
Property, plant and equipment (Note 4)	6,284	6,702
	$ 27,201	**$ 30,490**
LIABILITIES		
Current		
Bank overdraft	$ 30	$ -
Accounts payable and accrued liabilities	4,059	4,080
Provision for final payments to fishers	1,356	-
Loans payable (Note 5)	18,434	23,088
	23,879	27,168
Contingencies (Note 11)		
RETAINED EARNINGS		
Retained earnings	3,322	3,322
	$ 27,201	**$ 30,490**

The accompanying notes are an integral part of the financial statements.

Approved by the Board:

Chairman

Director

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the Year Ended April 30 (in thousands)	**2005**	2004
OPERATIONS		
Sales (Note 6)		
Export	$ 45,134	$ 46,545
Domestic	13,115	13,716
	58,249	60,261
Cost of sales		
Opening inventory of finished fish products	14,383	13,682
Add fish purchases and processing expenses:		
Initial payments to fishers	30,392	35,689
Salaries, wages and benefits (Note 8)	8,458	8,970
Packing allowances and agency operating costs	5,016	5,471
Packaging and storage	3,776	3,589
Utilities and property taxes	1,239	1,317
Amortization of production assets	1,221	1,235
Repairs and maintenance	525	703
Other	366	453
	65,376	71,109
Less ending inventory of finished fish products (Note 3)	(12,386)	(14,383)
	52,990	56,726
Gross profit on operations	**5,259**	**3,535**
Marketing and administrative expenses		
Salaries and benefits (Note 8)	1,984	2,075
Interest and foreign exchange gains and losses (Note 7)	634	1,085
Data processing, office and professional services	384	645
Advertising and promotion	301	248
Amortization of administration assets	175	225
Meeting fees and expenses	160	149
Other	265	(61)
	3,903	4,366
Income (loss) before provision for final payments to fishers	**1,356**	**(831)**
Provision for final payments to fishers	1,356	-
Net income (loss) for the year (Note 9)	-	**(831)**
Retained earnings at beginning of the year	3,322	4,153
Retained earnings at end of the year	**$ 3,322**	**$ 3,322**

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the Year Ended April 30 (in thousands)	**2005**	2004
CASH PROVIDED BY (used for)		
Operating activities		
Net income (loss) for the year	$ -	$ (831)
Add (deduct) items not affecting cash:		
Amortization	1,396	1,460
Loss on disposal of property, plant and equipment	5	30
Net changes in non-cash working capital balances relating to operations	2,701	(2,232)
Increase (decrease) in provision for final payments to fishers	1,356	(6,183)
Cash provided by (used for) operating activites	**5,458**	**(7,756)**
Investing activities		
Additions to property, plant and equipment	(1,014)	(1,318)
Proceeds on disposal of property, plant and equipment	31	2
Cash used for investing activities	**(983)**	**(1,316)**
Financing activities		
(Decrease) increase in loans payable	(4,654)	9,088
Cash (used for) provided by financing activities	**(4,654)**	**9,088**
(Decrease) increase in cash during the year	**(179)**	**16**
Cash at beginning of year	149	133
(Bank overdraft) Cash at end of year	**$ (30)**	**$ 149**

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended April 30, 2005

1. AUTHORITY, OPERATIONS AND OBJECTIVES

The Corporation was established in 1969 by the *Freshwater Fish Marketing Act* for the purpose of marketing and trading in fish, fish products, and fish by-products in and outside of Canada. The Corporation is required to purchase all fish legally caught in the freshwater region, which encompasses the provinces of Alberta, Saskatchewan, Manitoba, parts of northwestern Ontario, and the Northwest Territories. Participation of these provinces and territory was established by agreement with the Government of Canada.

The Corporation is an agent Crown corporation named in Part I of Schedule III of the *Financial Administration Act*. The Corporation is required to conduct its operations on a self-sustaining basis without appropriations from Parliament and the total borrowings of the Corporation may not exceed $28 million.

The Corporation has the exclusive right to trade and market the products of the commercial fishery on an interprovincial and export basis, and it exercises that right with the objectives of marketing fish in an orderly manner, maximizing returns to fishers, promoting international markets, and increasing interprovincial and export trade in fish, fish products, and fish by-products.

The Corporation is a prescribed federal Crown corporation for tax purposes and is subject to federal income and large corporations taxes under the *Income Tax Act*.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements of Freshwater Fish Marketing Corporation have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these financial statements are summarized on the following pages and conform in all material respects to Canadian GAAP.

Inventories

Finished fish products are recorded at the actual cost of fish purchases throughout the year plus the average actual cost for direct labour and overhead directly related to processing. At year-end, finished fish products are valued at the lower of cost and net realizable value. Packaging material and supplies are valued at the lower of cost and replacement cost.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is based on the estimated useful lives of the assets using the following methods and annual rates:

Buildings	- Lake stations	Straight-line	5-10%
	- Plant	Straight-line	2 1/2%
Equipment	- Machinery and office equipment	Declining balance	10-40%
	- Automotive	Declining balance	30%
Fresh fish delivery tubs		Straight-line	10%
Vessels		Straight-line	6 2/3%

The costs for systems under development and plant assets being upgraded or purchased, but that are not yet operational, are charged to construction in progress. When the assets become operational, the cost is transferred to the appropriate property, plant and equipment classification and amortized accordingly.

Payments to fishers and retained earnings
The Corporation purchases fish at initial prices established by the Board of Directors based upon operational forecasts prepared by the Corporation and the cost of such purchases is included in the cost of sales. Final payments to fishers, if any, are approved by the Board of Directors after the end of the year, based on the results of operations for the year, and are excluded from the cost of sales. The final payments are made in respect of products sold during the year and therefore are charged to operations of the current year. After the final payments are established, any remaining income for the year is recorded as retained earnings.

Foreign currency translation
Revenue and expense items are translated into Canadian dollars at the monthly average exchange rate in effect during the year. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rate. All foreign exchange gains and losses incurred are included in interest and foreign exchange gains and losses.

Pension benefits
All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The Corporation's contributions reflect the full cost as employer. This amount is currently based on a multiple of an employee's required contributions and may change over time depending on the experience of the Plan. The Corporation's contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the Corporation. The Corporation is not currently required to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

Revenue recognition
Sales are recorded on an accrual basis and recognized when products are shipped to customers.

Derivative financial instruments
Derivative financial instruments are utilized by the Corporation in the management of its foreign currency exposures and not for trading or speculative purposes. The Corporation does not apply hedge accounting to its derivatives. Derivatives are recognized on the balance sheet upon issuance, and removed from the balance sheet when they expire or are terminated. Both on initial recognition and subsequently, each derivative is recognized as either an asset or a liability on the balance sheet at its fair value. Derivatives with a positive fair value are reported as a component of prepaid expenses. Derivatives with a negative fair value are reported as a component of accounts payable and accrued liabilities. All changes in the fair value of derivatives are recognized in income in the period in which they occur as a component of interest and foreign exchange gains and losses. Derivatives are intended to be held to maturity resulting in the cumulative unrealized gains and losses on individual derivative instruments netting to zero over the life of the instrument.

Use of estimates
Financial statements prepared in accordance with Canadian generally accepted accounting principles require management to make estimates and judgements that affect the amounts and disclosures reported in the financial statements. The more significant areas requiring the use of management estimates are related to the allowance for doubtful accounts, the provision to reduce all slow-moving or unsellable finished fish inventories to their estimated net realizable value and derivative financial instruments measured at fair value. Actual results may differ from those estimated, although management does not believe that any differences would materially affect the Corporation's financial position or reported results of its operations. If actual results differ from these estimates, the impact would be recorded in future periods.

3. INVENTORIES (in thousands)

	2005	2004
Finished fish products	$ 12,386	$ 14,383
Packaging material and supplies	969	905
	$ 13,355	$ 15,288

Fiscal Year Ended April 30, 2005

4. PROPERTY PLANT AND EQUIPMENT
(in thousands)

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 336	$ -	$ 336	$ 336
Buildings	8,089	5,875	2,214	2,285
Equipment	19,412	16,361	3,051	3,273
Fresh fish delivery tubs	592	269	323	412
Vessels	490	315	175	204
Construction in progress	185	-	185	192
	$ 29,104	$ 22,820	$ 6,284	$ 6,702

5. LOANS PAYABLE (in thousands)

	2005	2004
Promissory note	$ 5,034	$ 5,488
Bankers acceptances	13,400	17,600
	$ 18,434	$ 23,088

The bankers acceptances are unsecured, bear interest at 2.54% (2004 – 2.05%) and mature on May 3, 2005.

The $4,000 thousand U.S. dollar denominated promissory note ($5,034 thousand Canadian dollar) is unsecured, repayable in U.S. dollars, bears interest at 3.30% and matures on May 31, 2005.

6. SALES COMMISSIONS
During the year, the Corporation paid commissions of $1,014 thousand (2004 - $1,027 thousand) to sales agents, which are netted against sales in the statement of operations and retained earnings. Included in that amount is $949 thousand (2004 - $936 thousand) of commissions paid to foreign sales agents.

7. INTEREST AND FOREIGN EXCHANGE GAINS AND LOSSES
Interest and foreign exchange gains and losses of $634 thousand (2004 - $1,085 thousand) includes interest of $633 thousand (2004 - $679 thousand), a net foreign exchange gain of $454 thousand (2004 net loss of $406 thousand) and an unrealized fair value adjustment (loss) on derivative financial instruments of $455 thousand.

Interest paid during the year amounted to $631 thousand (2004 - $678 thousand).

8. PENSION BENEFITS
The Corporation and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The Corporation's and employees' contributions to the Public Service Pension Plan for the year were as follows:

(in thousands)	2005	2004
Corporation's contributions	$ 627	$ 644
Employees' contributions	$ 287	$ 292

9. INCOME TAXES
The Corporation is eligible to deduct for tax purposes a portion of its capital cost allowance, and accordingly, has no taxable income for the year (2004 - nil). At April 30, 2005 the estimate of the excess of undepreciated capital cost over the net book value of property, plant and equipment amounted to $2,765 thousand (2004 actual - $2,790 thousand) which can be used to reduce future years' taxable income. No amount has been recorded in the financial statements with respect to this excess amount since it is unlikely that any future income tax benefits will be realized.

10. DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation generates a significant portion of its sales in U.S. dollars and uses derivative financial instruments to reduce its exposure to change in the value of U.S. dollars. The Corporation currently uses the following types of instruments:

Foreign exchange forward contracts - commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

Foreign exchange call options – right to purchase currencies at a specified price within a specific time period.

This is the first year the Corporation has used derivative financial instruments. Included in accounts payable and accrued liabilities is an amount of $455 thousand representing the fair value of derivative financial instruments held as at April 30:

(in thousands)	2005
Foreign exchange forward contracts	$ 355
Foreign exchange call options	100
	$ 455

Notional principal amounts outstanding as at April 30 are listed below for the foreign exchange contracts and foreign exchange call options entered into by the Corporation. The remaining term to maturity of all these derivative financial instruments is under one year.

(in thousands)	2005
Foreign exchange forward contracts	$ 12,255
Foreign exchange call options	$ 8,810

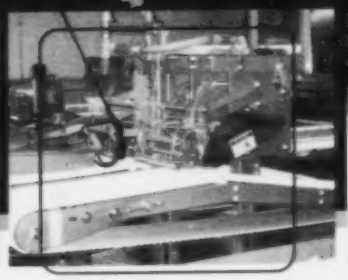
In any transaction, there is a potential for loss. The risk of loss relating to the Corporation's derivative financial instruments is represented by (1) credit risk, wherein the counterparty fails to perform an obligation as agreed upon, causing the Corporation to incur a financial loss, and (2) market risk, where an exposure exists as a result of the possibility of adverse changes in foreign exchange rates. The Corporation manages its exposure to credit risk by contracting only with creditworthy counterparties. The Corporation manages its exposure to market risk (foreign exchange) by acquiring derivative financial instruments only within limits approved by the Board of Directors.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash, accounts receivable, accounts payable and accrued liabilities, provision for final payments to fishers, and loans payable are valued at their carrying values on the balance sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of the financial instruments. Derivative-related amounts are valued at their fair value on the balance sheet. The estimate of the fair value of the foreign exchange forward and foreign exchange call options contracts is calculated using the current market spot and forward exchange rates at the end of the year.

12. CONTINGENCIES

The Corporation is involved in various legal claims arising from the normal course of business. The outcome of these claims is currently not determinable, and accordingly, no amounts have been recorded in the financial statements. It is the opinion of management that any amounts payable arising from these claims will not have a material adverse effect on the financial position of the Corporation. Amounts payable, if any, will be recorded in the year in which any liability is considered likely and the associated costs can be reasonably estimated.



CORPORATE GOVERNANCE

A Board of eleven Directors, including the President and Chief Executive Officer, governs the Corporation. All Board positions are federal Order-in-Council appointments, with five appointed on recommendation of the participating provincial governments. During the 2004/05 fiscal year, six of those Directors were fishers and six were Aboriginal. The Corporation welcomed its newest Director, Bob Paterson, appointed as the Ontario representative for a three-year term at the beginning of the 2004/05 fiscal year. The Board believes this composition reflects the geographical scope, interests and well-being of its multicultural stakeholders. It is the Board's strongly-held view that a majority of its members should always be active fishers representative of the various regions.

Board members exercised their liaison role with all levels of government and fisher association stakeholders by attending numerous private and public meetings, conferences and information sessions in the provinces and communities they represent. A Quarterly Report is issued to stakeholders highlighting key financial results and commenting on the progress of fisheries across the FFMC region.

The Corporation's Board members met five times in Winnipeg during the fiscal year. Once per quarter, the Board undertook a comprehensive review of financial results and operational issues. They were also briefed by management on the progress of active strategic initiatives. During the July 2004 meeting, the Board received the annual audit report from the Office of the Auditor General and approved the 2003/04 Annual Report. At the quarterly meeting in March 2005, the Board approved the Corporate Plan and operating budget for subsequent submission to Treasury Board. The fifth session also took place in March 2005, at which time the Office of the Auditor General presented its report for the Special Examination that was conducted during the fiscal year (see FFMC's Overview at the end of this Report).

The Board considered thirteen applications under the new Export Dealers Licence policy and approved five, while renewing two.

Major conferences or annual meetings attended included the Northwest Territories Fishermen's Federation, First Nation Fisheries, Manitoba First Nation Inland Fisheries Conference, Seafood Value Chain Roundtable, Alberta Commercial Fishermen's Association, Saskatchewan Cooperative Fisheries Ltd., and the National Seafood Sector Council Board and Governance Committee.

CORPORATE OFFICERS

Robert F. Hand
President and Chief Executive Officer
Email: bob.hand@freshwaterfish.com

Gabriella Bradics
Chief Financial Officer
Email: gabriella.bradics@freshwaterfish.com

Gerald F. Malone
Vice-President, Marketing
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Stephen Kendall
Vice-President, Operations
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BOARD OF DIRECTORS

Jim Bear
Chairman of the Board
Scanterbury, Manitoba
Occupation: Political Advisor, Southeast Tribal Council
Served on FFMC Board: 4 years

Robert F. Hand
President and Chief Executive Officer
Winnipeg, Manitoba
Served on FFMC Board: 5.5 years

Irvin Constant
The Pas, Manitoba
Occupation: Fisher
Served on FFMC Board: 9 years

Gordon McDougall
Ashern, Manitoba
Occupation: Fisher
Served on FFMC Board: 9 years

James R. Favel
Île-à-la-Crosse, Saskatchewan
Occupation: Fisher
Served on FFMC Board: 6.5 years

Ed Isfeld
Winnipeg Beach, Manitoba
Occupation: Fisher
Served on FFMC Board: 15 years

David McArthur
Lac La Biche, Alberta
Occupation: (Retired) Executive Director, Alberta Commercial Fishermen's Association
Served on FFMC Board: 24 years

Bert Buckley
Hay River, Northwest Territories
Occupation: Fisher
Served on FFMC Board: 6 years

Terry Hansen
Beauval, Saskatchewan
Occupation: Heavy Duty Mechanic
Served on FFMC Board: 2.5 years

Ron Ballantyne
Grand Rapids, Manitoba
Occupation: Fisher
Served on FFMC Board: 1.5 years

Bob Paterson
Sioux Lookout, Ontario
Occupation: Area Supervisor, Ontario Ministry of Natural Resources
Served on FFMC Board: 1 year

FFMC's Overview of the Recently Completed "Special Examination"

WHAT IS A "SPECIAL EXAMINATION"?

Every five years, each federal Crown corporation is required by the *Financial Administration Act* to undergo a "Special Examination". The Special Examination is a comprehensive audit of all of the key management systems and practices of the Corporation. The purpose of the audit is to provide an independent opinion to the Board of Directors as to whether there are any significant deficiencies in these systems and practices. A significant deficiency would be one or more fundamental weaknesses in management systems and practices that could threaten the ability of the Corporation to achieve its objectives – for example, FFMC's objective of providing increasing returns to fishers.

WHO CONDUCTED THE SPECIAL EXAMINATION?

The Auditor General of Canada conducted the Special Examination. The audit team included members of the Auditor General's staff as well as external experts in the areas of plant productivity and marketing. The audit team began its work in October 2004 and presented its final report to the Board of Directors on March 9, 2005.

WHAT SPECIFIC AREAS OF THE CORPORATION WERE EXAMINED?

The Auditor General's team initially conducted a survey to determine the most critical aspects of the Corporation's operations. During this phase of the examination, the audit team also identified the key systems and practices that it considered essential in order to provide the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. The audit team then developed eight specific project areas to examine, providing comprehensive coverage of FFMC's operations:

- Corporate Governance (including the Board of Directors)
- Marketing
- Plant Operations
- Pooling and Returns to Fishers
- Quality
- Stakeholder Relations
- Safeguarding Corporate Assets
- Internal Audit

HOW WAS FFMC MANAGEMENT INVOLVED IN THE EXAMINATION?

Because the Special Examination focuses on matters that are of interest to the Board of Directors, the auditors spent a considerable amount of time with the Corporation's senior management. FFMC's senior managers cooperated fully with the Auditor General's team and looked forward to hearing the Auditor General's conclusions and suggestions for improvement.

WHAT WAS THE OPINION OF THE AUDITOR GENERAL?

The Auditor General concluded that there were no significant deficiencies in the Corporation's systems and practices that were examined. FFMC's senior management is very proud of this positive result. The Board of Directors is also pleased with the conclusions reached by the Auditor General's team.

DID THE AUDITOR GENERAL MAKE ANY RECOMMENDATIONS TO THE CORPORATION AND/OR THE BOARD OF DIRECTORS?

The Auditor General's staff identified several areas where the Corporation's systems and practices could be strengthened. The most important of these areas relates to the work of the Board of Directors and to plant operations. These areas represent opportunities for improvement -- they are not significant deficiencies.

Strengthening the Work of the Board of Directors: The Auditor General noted that the Corporation's business and its financial affairs were becoming increasingly complex. The report also noted that modern Boards of Directors develop "profiles" that describe the skills and expertise needed within the Board to address these challenges. In the public sector, these profiles are given to the government ministers responsible for appointing individuals to the Board, to assist them in making choices that will be most beneficial to the Corporation. The Auditor General's view was that the Board should maintain its traditional majority of fisher representatives, but that it would benefit from having greater financial expertise and marketing skills. The Auditor General also described the important role played by modern audit committees in overseeing matters such as financial management and control, risk management, audit and performance reporting. These observations led the Auditor General to recommend that the Board:

- Update its current profile to reflect the skills needed for dealing with current business challenges and risks;
- Request the federal Minister of Fisheries and Oceans to take this updated profile into account in making future appointments and, in particular, emphasize with the Minister the need for an individual with financial expertise; and
- Create an Audit Committee comprised of independent directors with adequate financial expertise.

The Auditor General recognized that the structure of the Board is unique, and that addressing the first two recommendations would take time. The Board is currently considering these recommendations.

Plant Operations: The Auditor General noted a number of positive aspects of the Corporation's plant operations. The examiners also identified several opportunities to achieve efficiencies and annual cost savings by improving yield monitoring, production planning, shop floor tracking and supervisory activities. The Auditor General recommended that management accelerate its plans to address these areas. Management has recently initiated several projects to work towards realizing these potential benefits.

HOW CAN I VIEW A COPY OF THE COMPLETE SPECIAL EXAMINATION REPORT?

The complete Special Examination report is available on Freshwater Fish Marketing Corporation's website at www.freshwaterfish.com.

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2004-2005 FRESHWATER FISH MARKETING CORPORATION ANNUAL REPOR

CORE VALUES

- *We will provide a working environment that recognizes employee value and fosters innovation and respect.*
- *We will be open, honest and accountable.*
- *We will strive to exceed customer expectations for quality, service and reliability.*
- *We will be vigilant in all we do to ensure the sustainability of the inland fishery.*
- *We will treat everyone fairly and with respect.*
- *Above all, we will be governed by our responsibilities to fishers.*

MARKETING
FRESHWATER FISH
CORPORATION

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